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IMPACT OF THE REFORM PROCESS IN AGRICULTURE ON LDCs AND NET FOOD-IMPORTING DEVELOPING COUNTRIES AND WAYS TO ADDRESS THEIR CONCERNS IN MULTILATERAL TRADE NEGOTIATIONS

Background note by the UNCTAD secretariat

Executive summary

During the Uruguay Round negotiations on agriculture, there was concern that the implementation of the Agreement on Agriculture (AoA), and particularly the implementation of the commitments on the reductions of export subsidies, could have negative (short-term) impacts on least developed countries (LDCs) and net food-importing developing countries (NFIDCs), mainly through increases in food import bills resulting from expected agricultural price rises. With a view to minimizing this concern, the member States of the World Trade Organization (WTO) agreed "the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on least developed countries and net food-importing developing countries" as a part of the Uruguay Round Agreements.

This background note suggests that the implementation of the Decision has not been satisfactory, largely for three reasons. First, the Decision has no operational mechanism for carrying out the support measures specified in it. Second, there has been no attempt within the WTO framework to systematically estimate the impact of the implementation of the AoA on LDCs and NFIDCs, although some of the support measures described in the Decision appear to be dependent on such estimations. Third, there were very few substantive discussions on the country-specific impact of the AoA (e.g. an increase in food import bills as a result of elimination of price discounts received from exporting countries before 1995) during the WTO's monitoring of the Decision, although the impact of certain aspect of the AoA could be recognized only at the country-specific level, even when they appeared insignificant at the global level.

This background note studies the impact of the AoA on LDCs and NFIDCs at an aggregated level, and suggests issues that may be discussed at the Expert Meeting with regard to possible ways of addressing concerns of LDCs and NFIDCs arising from their country-specific experiences of the reform process in agriculture.

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BACKGROUND

1. In this background note, the term "least developed countries" (LDCs) refers to the 48 countries so designated by the United Nations.[1] The term "net food-importing developing country" (NFIDC) was included in the Final Act adopted at the conclusion of the Uruguay Round in Marrakesh. It refers to a country that is a net importer of basic foodstuffs in any three of the most recent five years.[2] When the complete elimination of, or reductions in, agricultural support policies was negotiated at the Uruguay Round, it was considered important to give special consideration to NFIDCs together with LDCs, since these policy changes were expected to raise the world prices for basic foodstuffs, and this in turn would imply an increase in the costs of meeting normal levels of imports of basic foodstuffs. As of March 2000, 19 developing countries had notified the WTO for listing as NFIDCs (see table 1 for a listing of LDCs and NFIDCs in the WTO framework).

2. NFIDCs are countries that face a serious food-import burden, the reason for which are various in view of their diverse agricultural situations. These reasons, which are not mutually exclusive, include economic problems, e.g. a rapid rise in urban food demand which exceeds production growth; the heavy dependence of agricultural production on weather conditions; and agricultural policies that place greater emphasis on the production of exportable goods than on the production of basic foodstuffs. For instance, for a group of NFIDCs that are small island developing states (Barbados, Cuba, Dominican Republic, Jamaica, Mauritius, Saint Lucia, and Trinidad and Tobago),[3] the food-import burden may be due to a lack of natural endowment for the adequate production of temperate products. The specific characteristics of those countries, such as their small size, remoteness, geographical dispersion, vulnerability to natural disasters and limited internal market, may further explain their continuing dependence on imports of basic foodstuffs (FAO, 1999b). The agricultural production of some of those countries concentrates on exported cash crops, while the production of basic foodstuffs takes place as subsistence farming. Furthermore, the recent rapid growth in the tourism sector in those countries, which is becoming an important source of foreign exchange earnings, will only increase the need for food imports, especially imports of value-added processed products.

3. Throughout the Uruguay Round negotiations, it was expected that the proposed reforms of the agricultural trading system (i.e. reductions in export subsidies and trade-distorting domestic support measures) would result in higher world market prices for basic foodstuffs, particularly those benefiting from the highest degree of production and export subsidization (wheat, dairy products, and meat). A rise in the world prices of basic foodstuffs implies higher costs for food imports, which would increase the (short-term) financial burden of LDCs and NFIDCs.

4. The quantitative assessments made by the GATT secretariat (and other institutions) after the release of the Draft Final Act in 1991 confirmed these concerns. It was forecast that the AoA would result in a positive income gain for the world as a whole,[4] but that there would be negligible gains, if not an actual loss, for a group of developing countries, particularly the low-income countries dependent on imports of basic foodstuffs. Therefore, Article 16 of the AoA requires developed countries to "... take such action as provided for within the framework of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries".

Table 1. LDCs and NFIDCs in the WTO framework

Least developed countries (48)	WTO members (28): Angola, Bangladesh, Benin, Burkina Faso, Burundi, Central African Republic, Chad, Djibouti, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Niger, Rwanda, Sierra Leone, Solomon Islands, United Republic of Tanzania, Togo, Uganda, Zambia
	Non-WTO members (20): Afghanistan, Bhutan, Cambodia, Cape Verde, Comoros, Democratic Republic of the Congo, Equatorial Guinea, Eritrea, Ethiopia, Kiribati, Lao People's Democratic Republic, Liberia, Nepal, Samoa, Sao Tome and Principe, Somalia, Sudan, Tuvalu, Vanuatu, Yemen
Net food-importing developing countries (19)	Barbados, Botswana, Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras, Jamaica, Kenya, Mauritius, Morocco, Pakistan, Peru, Saint Lucia, Senegal, Sri Lanka, Trinidad and Tobago, Tunisia, Venezuela
WTO observer countries and territories (* LDCs)	Albania, Algeria, Andorra, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bhutan,* Cambodia,* Cape Verde,* China, Croatia, Ethiopia,* Georgia, Holy See (Vatican), Kazakhstan, Lao People's Democratic Republic,* Lebanon, Lithuania, Nepal,* Oman, Republic of Moldova, Russian Federation, Samoa,* Saudi Arabia, Seychelles, Sudan,* Taiwan Province of China, The Former Yugoslav Republic of Macedonia, Tonga, Ukraine, Uzbekistan, Vanuatu,* Viet Nam, Yemen*

Note: All observer countries and territories have applied to join the WTO except the Holy See (Vatican) and, for the time being, Bhutan, Cape Verde, Ethiopia, and Yemen.

Source: WTO, *About WTO* (http://www.wto.org/wto/about/devgroups.htm).

5. Of all the planned policy reforms, particularly worrying to LDCs and NFIDCs were the reductions in export subsidies to be made by the European Union (EU) and the United States. The Final Act provided that export subsidies were to be reduced by 21 per cent in quantity from the base period (1986/1990). This implied over a period of six years from 1995 the following reductions in subsidized foodstuffs: 16.8 million tonnes of wheat and wheat flour; 4 million tonnes of coarse grains; and 0.26 million tonnes of rice. It was roughly equal to a reduction of 3.5 million tonnes per annum subsidized cereals, which was not an insignificant amount given the fact that LDCs' total cereals imports in 1995/96 were 12 million tonnes, and those of NFIDCs 26 million tonnes.[5]

6. Export subsidies have existed in the international agriculture market since the 1890s.[6] Over the years, food-deficit developing countries have depended on cheap subsidized exports, which were often linked to concessions granted under food aid programmes. Before the end of the Uruguay Round, the subsidy war between the European Union and the United States over cereals substantially reduced the world prices of wheat and maize almost to a dumping level, i.e. less than the cost of production anywhere (Stevens et al., 1999). Thus, the impact of reductions in export subsidies was expected to be twofold: exerting upward pressure on the world agricultural commercial prices of basic foodstuffs *and* reducing the price concessions received by LDCs and NFIDCs for decades.

7. It is wrong, however, to assume that LDCs and NFIDCs were against establishing a discipline on the use of export subsidies. Artificially cheap food imports hurt domestic producers in those countries in the long run by providing disincentives to increase production. As one article stated:

> "[export subsidies] often hurt very poor people; peasant dairy farmers in Ecuador and Peru were nearly wiped out by subsidized sales of European dairy products in the 1980s. And U.S. subsidized exports of cotton and tobacco in the 1950s in the guise of Food for Peace wreaked economic havoc with cotton producers in the Egyptian delta and with tobacco producers in Cuba, Brazil, Bulgaria and other countries." (Lotterman, 1996)

What concerned LDCs and NFIDCs during the Uruguay Round negotiations was not guarding the existence of cheap subsidized exports, but ensuring that export subsidies reductions were accompanied by measures that would help them overcome the expected short-term adjustment costs.

Chapter I

IMPACT OF THE URUGUAY ROUND AGREEMENT ON AGRICULTURE ON LDCs AND NFIDCs

8. As the implementation of the AoA went into its sixth year, the second round of the WTO negotiations on agriculture was launched at the first Special Session of the WTO Committee on Agriculture in March 2000, with a view to the continuation of the agricultural reform process pursuant to Article 20 of the AoA. As regards the first phase of the negotiations (March–December 2000) during which their framework and agenda will be discussed drawing on proposals submitted by the WTO Members, there is a need for a comprehensive assessment of how implementation of the AoA has affected individual LDCs and NFIDCs so that their interests and concerns are taken into account in the ongoing negotiations.

9. An assessment of the impact of AoA implementation can be made only at the country level. The type of impact on a country's agricultural production and trade depends on such country-specific factors as the production pattern and the import/export product mix, since the degree of AoA-induced policy reforms by WTO Members tends to vary according to different product categories. The impact may be felt at a macroeconomic level (e.g. GDP growth, employment level, balance of payments) or even at a social level (e.g. poverty alleviation, rural development, food security). It is expected that the country-specific impact of the AoA will be examined at the Expert Meeting, on the basis of concrete examples and experiences cited by national experts.

10. This background note examines the impact on LDCs and NFIDCs at an aggregated level, albeit the risk of generalization. The implementation of the AoA may have impacted on LDCs and NFIDCs owing to changes at three different levels: first, the implementation of a country's own commitments; second, the implementation of commitments (especially market liberalization) by other WTO Members; and third, the resulting global changes in world agricultural demand, supply and prices.

A. Impact of the implementation of AoA commitments by LDCs and NFIDCs

11. With respect to the first level, the implementation of the AoA in general made very little impact on the agricultural sector in LDCs and NFIDCs. This is because their agricultural liberalization in recent years resulted from not their AoA commitments, but from the unilateral deregulation and liberalization that a large number of them carried out long before, or in parallel to, the Uruguay Round.

12. In a large number of LDCs in sub-Saharan Africa, agricultural reforms started in the mid-1980s, often as a part of structural adjustment programmes. In these reforms, great attention was paid to deregulating markets to allow a greater role for the private sector in both product and input markets. These reforms also resulted in reductions in public agricultural services such as input provisions, product distribution, agricultural credit and research and extension services (UNCTAD, 1998a). In addition, government controls on agricultural trade policies were reduced. Export taxes were reduced or abolished, and state trading enterprises were often disbanded. Import policy changes included setting the maximum ceiling for tariffs, and abolition or reduction of non-tariff barriers such as non-automatic import licensing, import prohibition and quotas.

13. Almost all NFIDCs have also carried out a substantial degree of unilateral liberalization. Egypt, for instance, implemented significant economic policy reforms from 1986 onwards, covering in the first phase (1987-1989), price reforms, relaxation of marketing controls, removal of delivery quotas for 10 major and minor crops, and reduced subsidies for inputs and in the second phase (1990-1994) measures to consolidate the earlier reforms, including elimination of subsidies on all inputs, reduction of the role of the parastatals on input distribution, and reduction of credit subsidies. The FAO country case studies (FAO, 2000) on the experience of the AoA provide a comprehensive assessment of the impact of unilateral liberalization in light of the implementation of the AoA, the countries covered being Bangladesh, Egypt, Guyana, India, Morocco, Pakistan, Peru, Sri Lanka, and Thailand.

14. The degree of unilateral liberalization went beyond the commitments under the AoA, and thus the implementation of the AoA itself generated few policy changes in LDCs and NFIDCs. The applied tariff rates of LDCs and NFIDCs in the period 1995 -1999 were mostly substantially below their WTO bound rates. The applied rates were even further reduced in some countries (e.g. Egypt, Pakistan and Sri Lanka) as part of their continuing unilateral liberalization programmes. Almost all NFIDCs claimed zero Aggregate Measurement of Support (AMS) and zero export subsidies in the base period (except Morocco, Tunisia and Venezuela as regards domestic support, and Venezuela as regards export subsidies). And, in any case, LDCs were exempted under Article 15 from undertaking AoA reduction commitments.

B. Impact of other countries' implementation of AoA commitments

15. The degree of impact of other countries' implementation of the AoA commitments on agricultural exports from LDCs and NFIDCs depends on the degree of liberalization achieved by major importing countries resulting from the AoA. It also depends on whether exports into their respective markets on most-favoured-nation (MFN) terms or under preferential arrangements (reciprocal or non-reciprocal).

16. First, did the AoA lead to a sizeable market liberalization by other WTO Members, particularly of developed countries? The post-Uruguay Round agricultural tariff barriers remain substantially higher than those in other sectors. The average Uruguay Round bound agricultural tariffs of developed countries are estimated at 27.1 per cent, compared with 3.5 per cent for industrial products and 3.7 per cent for all merchandised products (Finger, Ingco and Reincke, 1996). The gap between the applied tariff rates and the bound rates in developed country markets is narrower than that in developing countries, including LDCs and NFIDCs. Moreover, the agricultural tariff reduction approach employed during the Uruguay Round led to uneven tariff cuts across different products, allowing countries to maintain prohibitively high tariffs on "sensitive" products.[7] Problems relating to tariff peaks and tariff escalation vis-à-vis agricultural exports of developing countries have also been identified. A joint UNCTAD/WTO study shows that tariffs on major export products of developing countries such as sugar, tobacco and cotton,

and those of potential export interest such as processed food, are frequently levied at some of the highest peak rates (e.g. exceeding 100 per cent) (UNCTAD, 1999a). Also, it finds that tariff escalation persists in the post-Uruguay Round tariff environment, particularly in a number of product chains that are of importance to developing countries including; coffee, cocoa, oilseeds, vegetables, and fruits and nuts.

17. With regard to domestic support policy reform, there is a large gap in AMS values between developed countries and developing countries: in 1996, the aggregate current total AMS of 10 developed countries accounted for 95 per cent of the total value of US$ 103.7 billion notified by 24 countries, with the European Union accounting for 56 per cent and Japan 28 per cent. With regard to export subsidies, the value of the legitimate (i.e. within the reduction commitment) export subsidies at the end of the implementation period would remain at around US$ 13.8 billion, which equals 2.4 per cent of world total agricultural exports (US$ 579.9 billion) in 1997, or 63.6 per cent of the total agricultural exports of Africa in the same year.

18. Second, assuming that there was a degree of market liberalization in major import markets, how did exporters in LDCs and NFIDCs benefit from it? Many LDCs and NFIDCs have a significant share of agricultural exports, particularly of so-called cash crops, such as sugar, cotton, tropical fruits (bananas, pineapples, melons, etc.), coconuts and palm oil, tobacco, coffee, cocoa and tea. All LDCs and NFIDCs are, in one way or another, recipients of preferential market access provided by major developed country importers, such as the Generalized System of Preferences (GSP) schemes, the commodity protocol or other tariff preferences under the Lomé Convention between the EU and the African, Caribbean and Pacific (ACP) group of countries, the United States Caribbean Basin Initiative.[8]

19. According to an ongoing UNCTAD study on market access to LDCs' exports, an average of 63 per cent of their total agricultural exports to developed countries in the period 1995-1997 went to the EU, and on average 65 per cent (96 per cent in terms of a weighted average) of those LDC exports in 1996 are estimated to have entered under the preferential rates of the Lomé Convention or the EU's GSP rates for LDCs.[9]

20. Ten out of the 19 NFIDCs (Barbados, Botswana, Côte d'Ivoire, Dominican Republic, Jamaica, Kenya, Mauritius, Saint Lucia, Senegal, and Trinidad and Tobago) are also signatories to the Lomé Convention.[10] Among those countries, the agricultural export earnings of small island developing countries (e.g. Barbados, Dominican Republic, Jamaica, Mauritius and Saint Lucia) are largely dependent on the Lomé preferences associated with two products - sugar and bananas. Sugar exports from those countries to the United States market also receive preferential tariff margins under the United States Caribbean Basin Initiative. The Uruguay Round changed very little the import regime of sugar and bananas in the EU and the United States, the two largest import markets (FAO, 1999c). However, the recent challenge concerning the EU banana regimes before the WTO Dispute Settlement Panel led to the European Commission's proposals for changes to the common market organization for bananas; this suggests a gradual shift to a tariff-only regime as of 1 January 2006 at the latest.

21. Agricultural exports to the EU from three Mediterranean NFIDCs (Egypt, Morocco and Tunisia) have also benefited from the EU trade preferences under the EU-Mediterranean Cooperation Agreements (1977, revised in 1988). In 1993, more than 40 per cent of Egypt's agricultural exports (mainly vegetables and cotton) to the EU were under preferential access. Preferential coverage for exports to the EU from the other two countries was much higher: 73.5 per cent for Morocco (fresh fruits and vegetables) and 93.7 per cent (fats and oil) for Tunisia (Tangermann, 1997).

22. Most of the agricultural exports from Sri Lanka and Pakistan to the Quad countries (Canada, the EU, Japan and the United States) enter under MFN tariffs, whose rates are generally low (around 0 to 5 per cent).[11]

23. For a country with a large share of exports under preferential market access, developed countries' multilateral MFN tariff liberalization would diminish its relative price advantage vis-à-vis MFN suppliers. One FAO study estimated that the AoA could generate a potential loss of preferences worth US$ 632 million in 1992 dollars for all developing countries, with the largest loss in fruits and vegetables, nuts, tropical beverages and spices (Yamazaki, 1996).

24. It should not be concluded, however, that the MFN liberalization under the Uruguay Round worsened the market access conditions for preference-receiving LDCs and NFIDCs in absolute terms. A meaningful analysis of its impact can be made only at the country level on a product-by-product basis. Such an analysis would require information not only on the erosion of preferential margins but also on the competitiveness of the product in question vis-à-vis the products from MFN suppliers (this concerns, *inter alia*, the cross-product elasticity, the price advantage and the quality advantage) and on export opportunities arising from MFN liberalization in non-traditional markets.

C. Impact of changes in world agricultural prices arising from the Uruguay Round

25. The third level of impact, i.e. the impact on agricultural prices, was considered to be the source of "the possible negative effects" of the reform process, which led to the adoption of the Marrakesh Decision. What was the extent of the expected "negative" effects of the AoA? The problem is that an estimation of the precise impact of the AoA, which is subject to a mixture of exogenous variables, would not be technically feasible after only a few years of implementation.[12] Notwithstanding this difficulty, the available statistical data indicate that LDCs and NFIDCs did experience increases in food import bills and reductions in food aid availability in the period between 1995 and 1999.[13]

- Agricultural prices as a whole were higher in the period between 1995 and 1997 than the projected level (based on the data for 1985-1994), and then sharply declined following the demand shock triggered by the Asian financial crisis. According to FAO's assessment that the high prices in the first two years, especially of cereals, were partly due to lower stocks, which resulted from policy changes (i.e. reduced government intervention) before 1995 in anticipation of the implementation of the AoA. With regard to cereals and meat, the price rises in this period could be partly explained by the extremely low level of export subsidies actually provided. For instance, only 6 per cent in 1995 and 0 per cent of the total committed level of export subsidies on wheat were actually utilized in 1995 and 1996 respectively. The opening of tariff rate quotas (market access opportunities) may also be regarded as one of the factors which temporarily increased the world demand for cereals, and pushed up the prices of those products. Although the massive price falls in the period that followed suggest that policy changes would have had only secondary effects on agricultural prices, the use of export subsidies during this period (1998-1999) was considerably greater than in the previous period, in some cases at above the annual bound level, which could have amplified the downward pressures on prices.[14]

- Cereal import bills[15] of LDCs and NFIDCs (see table 2) increased from just over US$ 5 billion in 1993/94 to over US$ 8 billion in 1995/96 and around US$ 7.7 billion in 1996/97, and then decreased slightly to US$ 6.6 billion in 1998/99 (FAO, 1999g). Despite a massive fall in agricultural prices between 1997 and 1998, food import bills did not fall to

the same extent, owing partly to an increase in import volume, partly to a fall in the available level of food aid, and partly to a decrease in price concessions and discounts LDCs and NFIDCs used to receive from developed countries.

- With regard to the availability of food aid, the level decreased to 4.3 million tonnes per annum in 1998/99, the lowest figure since the mid-1950s (see table 2). Global food aid deliveries have been falling steadily since 1993. Coinciding with high world agricultural prices, food aid availability fell by over 27 per cent between 1995 and 1996.

26. In addition to the changes in the cost of food imports and the availability of food aid, the actual burden of food imports depends on the ability of LDCs and NFIDCs to finance their food import bills. UNCTAD reported at the 1998 annual monitoring exercise in respect of the follow-up to the Marrakesh Decision in the WTO Committee on Agriculture that the financing ability of those countries was bleak, and did not show any sign of improving in the near future (UNCTAD, 1998b). This ability was measured by their export earnings and the net flow of foreign exchange available to them. First, almost one-third of LDCs experienced in 1996 an actual fall of export earnings from the 1990 value, and the rest had a very low growth in the same period. For NFIDCs, annual average export growth was positive (except in Mauritius), ranging between 0.9 per cent (Côte d'Ivoire) and 12.9 per cent (Sri Lanka). However, because of the deteriorating terms of trade for these countries' exports, the purchasing power of their export earnings has declined significantly since 1990.

Table 2. Cereal imports and food aid deliveries to LDCs and NFIDCs

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Values ($ million)						
LDCs	1,185	2,029	2,778	2,103	3,008	2,442
NFIDCs	3,805	4,333	6,149	5,857	5,390	4,581
Volumes (million tonnes)						
LDCs	11.2	13.3	12.3	10.8	14.2	14.7
NFIDCs	27.2	27.5	27.4	29.5	32.5	31.3
Food aid (million tonnes)						
LDCs	3.9	4.3	3.3	2.8	2.9	4.0
NFIDCs	1.9	1.3	0.6	0.5	0.6	0.3

Source: FAO , 199a. Konandreas and Sharma, 2000.

27. Second, the net financial flows (including both official and private financial flows) to the majority of LDCs have registered significant declines in both real and nominal terms. Twenty African LDCs, as well as Haiti and 7 Asia/Pacific LDCs, experienced a nominal decline in total financial flows between 1994 and 1996. Nominal declines in net financial flows were also experienced by 7 NFIDCs (Côte d'Ivoire, Honduras, Mauritius, Morocco, Senegal, Sri Lanka, and Trinidad and Tobago). In addition, most LDCs as well as NFIDCs are heavily indebted. Since all the debt has to be paid in foreign currency, the debt burden further constrains their ability to finance the necessary food imports. In 1996, 23 LDCs (for which data were available) had a debt/GDP ratio of over 90 per cent, 17 of which having a ratio of above 100 per cent. The average debt service/export ratio for LDCs in the same period (for which data were available) was 15.3 per cent. The debt/GDP ratio for NFIDCs is less significant, but the debt service/export ratio is extremely high for a number of them: 6 out of 16 NFIDCs (for which data are available) have a debt service/export ratio of over 25 per cent and 5 have a ratio of between 15 and 20 per cent.

D. Implementation of the Marrakesh Decision on LDCs and NFIDCs

28. If the food-import burdens of LDCs and NFIDCs have increased in recent years, how has the Marrakesh Decision functioned to reduce them? The Decision states that "Ministers ... agree to establish appropriate mechanisms to ensure that the implementation of the [Agreement on Agriculture] does not adversely affect the availability of food aid at a level which is sufficient to continue to provide assistance in meeting the food needs of developing countries, especially least-developed and net food-importing developing countries". The Decision recommends that WTO Members *inter alia*:

- Establish a sufficient level of food aid required during the agricultural reform programme;
- Give full consideration in their aid programmes to the need of LDCs and NFIDCs for technical assistance to improve their agricultural productivity and infrastructure;
- Ensure that any agreement relating to agricultural export credits makes appropriate provision for differential treatment in favour of LDCs and NFIDCs;
- Call for special consideration to be given by international financial institutions (e.g. the IMF and World Bank) to the possible short-term financial difficulties that LDCs and NFIDCs may face in financing normal levels of commercial imports as a result of the Uruguay Round.

29. The Decision was reiterated at the Singapore Ministerial Conference in December 1996. As a result, the 1995 Food Aid Convention, which expired in 1999 after a one-year extension, was replaced by the 1999 Food Aid Convention, which will remain in force until 30 June 2002.

30. With respect to the efficacy of the Marrakesh Decision, however, several LDCs and NFIDCs noted during its monitoring that it had not satisfactorily achieved its initial objective. This seemingly disappointing result may be due to the following three reasons. First, the Marrakesh Decision, unlike the commitments under the AoA, has no operational mechanism for carrying out the support measures specified in it. It only provides general policy recommendations for countries donating food aid and technical/financial assistance. Second, there has been no attempt, within the WTO framework, to systematically assess the impact of the implementation of the AoA on LDCs and NFIDCs, although the provision of support measures stipulated in the Decision appears to be dependent on such assessment. Third, and in relation to the reasons already mentioned, there have been very few substantive discussions on the country-specific impact of the AoA. The impact of a particular aspect of the AoA at the country level could be considerable, even when it appears insignificant at the global level.

1. Provision of sufficient food aid

31. As has been mentioned, global food aid deliveries have been falling steadily since 1993, although there is no sign that the demand for food aid has declined significantly. As reported in FAO's *Food, Nutrition and Agriculture*, "... world agricultural production, including both crops and livestock, is slowing down. Among the developing countries as a whole, 1997 agricultural production experienced the lowest increase since 1979, and barely kept up with population growth. The sharpest declines were in the Near East, North Africa region and sub-Saharan Africa".[16] Hence, statistically speaking, the Decision failed to meet the objective of "establishing a sufficient level of food aid required during the agricultural reform programme".

32. The weakness of the Decision as regards meeting that objective lies in its lack of a precise definition of that "a sufficient level of food aid". Neither the Decision nor the Food Aid Convention quantifies the level of "sufficient" food aid required by LDCs and NFIDCs. Moreover, the Decision implicitly links the required increase in food aid to the degree of impact of the agricultural reform programme (i.e. the implementation of the AoA), which is, as already mentioned, not easily quantifiable. Also, the Decision does not suggest how this impact could be best estimated, and there was little substantive discussion of this during the monitoring process.[17]

2. Provision of bilateral technical assistance and financial assistance by the international financial institutions

33. It is unclear to what extent the Decision has been effective in encouraging the provision of technical assistance in the agricultural sector to LDCs and NFIDCs. It is in the form of a policy recommendation to donor countries, not a commitment. The basic understanding of the WTO Committee on Agriculture, which monitors the implementation of the Decision, is that the provision of technical assistance is essentially a bilateral matter between donors and recipients, based on requests made by recipients (WTO, 2000).[18]

34. The same situation applies to support from the international financial institutions to meet short-term difficulties in financing normal levels of food imports on a commercial basis. The World Bank and the IMF confirmed to the WTO Committee on Agriculture that they would continue to support the financing needs of LDCs and NFIDCs within their existing financing frameworks and programmes. The World Bank reported to the Committee in 1997 that "Given the wide range of facilities [available for additional financing needs] and the small price impacts expected to arise as a consequence of the Round, and the difficulty involved in distinguishing Uruguay Round impacts from other shocks, it did not seem appropriate to establish a special Uruguay Round adjustment facility" (WTO, 1997).

3. Appropriate provision for differential treatment in favour of LDCs and NFIDCs in any agreement relating to agricultural export credits

35. This provision was included in the Marrakesh Decision pursuant to Article 10.2 of the AoA, which commits WTO members to work towards development of internationally agreed disciplines to govern the provision of export credits, export credit guarantees or insurance programmes. Since export credits function for the benefit of LDCs and NFIDCs that face short-term cash flow problems, and export credit guarantees would facilitate commercial exports to financially "risky" countries, it was considered necessary to make a special provision for LDCs and NFIDCs. As of May 2000, however, WTO members have not been engaged in any substantive negotiations on this matter. Instead, the issue has been passed to the OECD, where the inclusion of the agricultural sector in the Arrangement on Guidelines for Officially Supported Export Credits is being negotiated (export credits for agricultural products have been excluded from this 22-year-old Arrangement).[19] The OECD negotiations have made limited progress so far, owing to a major disagreement among members on whether export credits are considered to be trade-distorting as export subsidies are.

E. Summary of this section

36. Assessment of the impacts of the reform process in agriculture seems to present a somewhat controversial picture: the agricultural sector in LDCs and NFIDCs is in general far more liberalized than their commitments under the AoA; and is relatively more liberalized than that of some of the developed country members of the WTO, despite the fact that the former

group depends more on the income and the employment from the agricultural sector than the latter group; the anticipated "possible" negative effects of the reform process on LDCs and NFIDCs manifested themselves in terms of the increase in their food import bills and the fall in food aid availability; and the safety net against such negative effects (i.e. the Marrakesh Decision) has not functioned in the way that was expected.

Chapter II

POSSIBLE ISSUES FOR DISCUSSION BY EXPERTS REGARDING WAYS OF ADDRESSING THE CONCERNS OF LDCs AND NFIDCs IN THE MULTILATERAL TRADE NEGOTIATIONS

37. Against the background of the issues discussed in the above sections, this section examines possible negotiating issues that may be raised during the first phase of the ongoing negotiations on agriculture. For LDCs and NFIDCs, a major concern may be the follow-up to the Marrakesh Decision beyond the implementation of the Uruguay Round commitments on agriculture. There may be other issues concerning negotiations on the contents of the AoA itself, in which the concerns of individual LDCs and NFIDCs may have to be reflected.

A. Follow-up to the Marrakesh Decision

38. Given the view that the implementation of the Decision has so far been unsatisfactory, the first question that may have to be considered is whether the Decision should be maintained beyond the implementation of the Uruguay Round AoA commitments. Should it be, for instance, established as an article within the AoA such that commitments to provide food aid and technical/financial assistance to LDCs and NFIDCs are made concrete?

39. If the Decision maintains its current framework, how may its effectiveness be improved? Questions that may be asked with regard to increasing the efficacy of the Decision include the following:

- What would be a feasible modality to quantify the needs of LDCs and NFIDCs in terms of technical/financial assistance and food aid? What would be the modality to assess whether such needs arise from the continuation of the reform process?

- What type of operational mechanism for the implementation of the Decision is required, for instance for a LDC or a NFIDC to make specific requests to bilateral/multilateral donors for technical/financial assistance should the need arise?

- Could a revolving fund for such assistance be established under the Decision, using the budgetary resources of developed countries originally provided for export subsidies on the premise that there will be substantial reductions in, if not elimination of, export subsidies in the current negotiations?

B. Negotiations on the continuing reform process in agriculture

40. The negotiations on the major areas of the AoA itself (i.e. export subsidies, domestic support and market access) concern LDCs and NFIDCs, as the likely impact of the continuation of the agricultural reform process on them would depend on its framework and the modality. Issues discussed below may be also applicable to developing countries other than LDCs and NFIDCs.

1. Export subsidies and export credits

41. The possible negotiating agenda of individual LDCs and NFIDCs would depend on the likely impact of the reductions/elimination of subsidized exports on the value and the volume of their food imports. Information required for an analysis of the country-specific impact would include:

- The type of products (e.g. wheat, wheat flour, rice, dried milk powder, vegetable oils, meat, etc.) and the quantities which entered the domestic market under the export subsidy programmes of other countries;

- The share of those imports under export subsidies in domestic consumption;

- The price differentials between those imports under export subsidies and the domestic market prices and/or the world prices;

- The continuity of the provision of subsidized exports (e.g. is it only available for the year concerned, or as a part of longer-term contracts?).

42. Obtaining such information on the importer side, however, is difficult, unless export subsidies take the form of official sales (e.g. as part of food aid programmes). Private sector importers do not necessarily know whether the import prices they receive were subsidized or not. In this connection, experts from major providers of export subsidies are encouraged to provide, if possible, information on whether any of their exports under export subsidy programmes have been earmarked for LDCs and NFIDCs. LDCs and NFIDCs may lack the analytical capacity to assess the importance of subsidized exports to their domestic consumption as well as the domestic production of the import-competing products. Analytical support may be sought from relevant international organizations or academic institutes.

43. The issue of export subsidies would be highly contentious as it was during the Uruguay Round. The focus of the current negotiations on export subsidies would be whether subsidies should be totally eliminated or whether they could be maintained, albeit after substantial reductions. In whichever case, LDCs and NFIDCs may pay particular attention to other WTO members' proposals on possible modalities for subsidies elimination/reduction. The resulting short-term adjustment costs (e.g. an increase in food import bills) to LDCs and NFIDCs, assuming that they imported a substantial amount of subsidized exports, would depend on the modality, which may include:

- A total elimination from the first year of implementation;

- A step decrease leading to a complete phase-out at the end of the implementation period;

- Substantial reductions using a reduction formula (as in the Uruguay Round commitments);

- A phased elimination or substantial reductions, with an approach similar to that of zero-for-zero, targeting first the products that are not the major import needs of LDCs and NFIDCs.

2. Domestic support commitments

44. One negotiating issue that concerns LDCs and NFIDCs is the possibility of increasing the "flexibility" in developing countries' application of the domestic support commitments. Greater flexibility has been called for by developing countries during the five years of AoA implementation, because the way in which the commitments were made resulted in a situation where developing countries that claimed zero AMS commitments faced the *de minimis* ceiling on the future use of AMS-type support, while countries that provided AMS-type domestic support in the base period were given a legal right to continue doing so.

45. The result is ironic, since it was developing countries that were made policy-constrained by the ceiling (i.e. the *de minimis* limit) not only against the current application of domestic support measures but also against the future needs for such measures that may arise given the dynamics of their agricultural sector in terms of its share of GDP, employment and export earnings. On the other hand, in developed countries, agricultural sector development (apart from the agro-food industry) has reached the level where there is little prospect of further growth in production and employment. The high level of support to domestic farmers in "protectionist" developed countries has reached the budgetary maximum, and it appears to be in the interest of those Governments to reschedule their spending planning on domestic support, however politically difficult it may be. In this respect, the proposed increase in flexibility may have originated from a systemic question as to whether countries with dissimilar agricultural circumstances and development level could meet the same rules and obligations with regard to the use of domestic support measures.

46. In the first phase of the agricultural negotiations, the term "flexibility" may have to be clearly defined for the issue to be taken as a possible negotiating agenda. Flexibility may imply the introduction of a new type of special and differential (S&D) treatment for developing countries, which may include the creation of the "Development Box", in addition to the Green Box. Flexibility may be gained from an improvement of the existing S&D treatment provision, e.g. modifying the *de minimis* limit available to developing countries.[20] Also, flexibility may be introduced into the calculation method for the current total AMS.

- **Development Box.** The Green Box criteria set out in Annex II of the AoA were drawn up on the basis of the agricultural policy measures used essentially in developed countries, and include measures that have less relevance to developing countries, such as production-limiting schemes (e.g. producer or resource retirement programmes). The objective of the Development Box may thus be to distinguish domestic support measures that are relevant to developing countries' efforts to enhance the agricultural production of products for domestic dietary supply, in addition to input and investment subsidies that are currently exempted from the current AMS calculation by developing countries. The application of such measures may be linked to economic indicators such as the food-import capacity, the agricultural production trend versus population growth, and the share of the domestic production of basic foodstuffs in the total domestic demand.[21]

- **Modifying the *de minimis* limit.** The values under the product-specific *de minimis* limit are not allowed to be aggregated, unlike the flexibility given to the AMS reduction commitments. As a possible method of increasing flexibility in this area, Konandreas (1998) suggested that the *de minimis* limit for developing countries could be increased to 15-20 per cent, or that a higher level of the *de minimis* limit could be accorded to the production of basic foodstuffs compared with non-food crops. Here again, a concrete cost-benefit analysis of such an increase would be necessary, from the perspective of LDCs and NFIDCs, as well as of possible implications for world trade, if any.

- **Modification of the AMS calculation method.** Several developing countries have faced problems with the treatment of the "negative" AMS and "excessive" inflation in the current total AMS.[22] So far, the negative AMS has been treated as zero input to the current total AMS. However, if the AMS is to be considered a composition of subsidies and taxes to domestic production, a negative AMS is an implicit tax on farmers and should be deducted from the current total AMS.

3. Market access

47. The current AoA includes a provision on market access for developing countries, as stated in its preamble: "[Members agree to provide] a greater improvement of opportunities and terms of access for agricultural products of particular interest to these [developing country] Members provided by developed country Members in implementing their commitments on market access". However, this provision was not clearly reflected in the market access commitments of developed countries.

48. In this respect, together with other relevant issues concerning the market access commitments, experts may discuss possible definition of market access "improvement" by examining the types of barriers to the current market access conditions (e.g. tariff peaks, tariff escalation, non-tariff barriers such as sanitary and phytosanitary measures and technical-barriers-to trade measures) for selected commodities of export interest to developing countries, particularly LDCs and NFIDCs. Experts may examine how market access improvement can be implemented, looking at the potential effectiveness of possible measures such as the following:

- Binding of the current autonomous tariff preferences granted to developing countries (e.g. GSP schemes);

- Expansion of the tariff rate quota quantities by, for example, earmarking certain quantities for developing country exporters, and/or reductions of within-quota tariff rates vis-à-vis exports of developing countries.

Chapter III

CONCLUSION - IDENTIFYING THE PRAGMATIC APPROACHES TO ADDRESSING THE CONCERNS OF LDCs AND NFIDCs IN THE MULTILATERAL TRADE NEGOTIATIONS

49. LDCs and NFIDCs need to ensure that the current negotiations identify pragmatic approaches which would balance the long-term objective of establishing a fair and market-oriented agricultural trading system on the one hand, and the short-term adjustment costs that maybe incurred by LDCs and NFIDCs on the other hand. In this respect, it is hoped that the UNCTAD Expert Meeting will provide an opportunity for experts from all countries to, first, examine country-specific experiences and cases illustrative of the concerns felt by LDCs and NFIDCs during the reform process in agriculture; second, analyze those concerns from a more global perspective, e.g. taking into consideration the perspectives of other countries (i.e. developed countries, other developing countries and countries with economies in transition); third, discuss elements that may be included in the agenda of the ongoing agricultural negotiations from the perspective of developing countries in general, and of LDCs and NFIDCs in particular; and, fourth, identify these areas in which support from relevant international organizations and institutions may be sought.

Notes

[1] The criteria used to determine the countries in greatest need were per capita gross domestic product (GDP), share of manufacturing in total GDP, and the adult literacy rate. These were later revised and refined to include the augmented quality of life index, the economic diversification index and population size (See UNCTAD, *About LDCs*, http://www.unctad.org/en/subsites/ldcs/aboutldc.htm).

[2] A study by the World Bank shows that 105 out of 148 developing countries (including countries not members of the WTO) are net food-importers on the basis of the three-year average food trade balance of 1995/97 (Valdes and McCalla, 1999). In addition, of 31 countries that have applied to join the WTO, 6 are LDCs (Cambodia, Lao People's Democratic Republic, Nepal, Samoa, Sudan and Vanuatu) and about half of the remaining 25 are statistically net food-importers.

[3] There is no internationally accepted definition of a small island developing State. For the present document the list used is the one prepared by FAO (http://www.fao.org/SIDS/def-e.htm), which includes countries that are the members of the Alliance of Small Island States (AOSIS) and FAO, plus three other small island States that are FAO members.

[4] A substantial and positive income gain for the world was expected to result from the gains for Western European and Japanese consumers arising from reductions in domestic agricultural prices. One World Bank estimate indicated that the world as a whole could gain US$ 48 billion (using 1992 prices) from reductions in tariffs and export subsidies. The gains for the OECD countries would account for 67.5 per cent of total gains.

[5] The figures for export subsidies were excerpted from UNCTAD (1995).

[6] The first such subsidies may have been Russia's subsidies for sugar exports against which the United States invoked the first countervailing measures in the history of world trade.

[7] Countries had flexibility in selecting the degree of tariff reduction for each product as long as it achieved "on average" a 36 per cent reduction. They thus chose to reduce the tariff rates for sensitive products by a minimum level (i.e. by around 15 per cent), and compensated for it by making a larger tariff cut for products whose base-period tariff rates had been low.

[8] It is also important to note that developing countries' import markets (and, in some cases, transition economies) are becoming increasingly important as outlets for agricultural exports from developing countries. In 1998, the share of developing countries' exports to destinations other than North America, Western Europe, Japan, Australia and New Zealand was 43 per cent, up from 39.5 per cent in 1990.

[9] This figure is based on 1996 trade statistics and the 1998 EU applied tariff rates.

[10] In February 2000, it was agreed between the EU and the ACP countries that the traditional non-reciprocal preferential access to the ACP countries would continue for eight years from March 2000.

[11] Using the figures based on 1996 trade statistics and the 1998 applied tariff rates, Sri Lanka's agricultural exports covered under GSP schemes of the Quad countries were as follows: 29 per cent (Canada), 10 per cent (EU), 74 per cent (Japan) and 8 per cent (the United States). The figures for Pakistan were the following: 4 per cent (Canada), 4 per cent (EU), 2 per cent (Japan) and 9 per cent (the United States).

[12] The difficulties involved in assessment are well documented in recent FAO documents. The basic difficulty lies in identifying a basis for comparison, i.e. what the situation would have been if there had been no implementation of the Uruguay Round AoA. Also the data period of five years since the beginning of implementation (1995) would be too short for any quantitative analysis, even if all the data are available up to date (FAO, 1999a).

[13] Various FAO studies over the last six years have been extensively used as references for this section.

[14] Under the so-called flexibility clause (Article 9.2(b) of the AoA), countries may "deposit" an unused amount of the annual bound export subsidies in a year for use in the following year(s) in addition to the annual bound level during the second to the fifth year of implementation.

[15] Cereals account for 52 per cent of the total dietary supplies in LDCs and 45 per cent in 19 NFIDCs (Konandreas and Sharma, 2000).

[16] Lupien and Menza, 1999.

[17] Although it is outside the scope of the Decision, it is important to note that not only the quantity but also the quality of food aid matters. The concept of food aid quality could cover the product quality of donated food and the timeliness of food aid to recipient countries. While the 1999 Food Aid Convention stipulates that "All products provided as food aid shall meet international quality standards, be consistent with the dietary needs of recipients and ... shall be suitable for human consumption" (Article III, paragraph j), the product quality of food aid (e.g. freshness, food safety standard, etc.) has not always matched the standards that would be required in the donor countries. As regards the timeliness of deliveries, it was stated during the annual monitoring of the Decision in the WTO Committee on Agriculture that food aid deliveries were often negatively correlated with the world cereals price, i.e. when the world price is high, and thus when the need for food aid is also high, more cereals from donor countries go to the commercial market than to their food aid programmes.

[18] Support to agricultural development has always been one of the priority areas of the aid donors' bilateral assistance programmes, and is likely to continue to be so. The Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development reports that over 70 per cent of total development aid in

the production support category provided by the 21 DAC members in 1998 was targeted at the agricultural sector (which accounted for 7.3 per cent of the total aid flow).

[19] The Arrangement applies to all official support for exports of goods and/or services, or to financial leases, which have repayment terms of two years or more. This is regardless of whether the official support for export credits is provided by means of direct credit/financing, refinancing, interest rate support, guarantee or insurance. The Arrangement also applies to official support in the form of tied aid (OECD, http://www.oecd.org/ech/act/xcred/arrngmnt.htm#chapitre4).

[20] The de *minimis* limit for developing countries is set at 10 per cent (5 per cent for developed countries) of the value of the annual production of the product concerned for product-specific domestic support, and 10 per cent of the annual total agricultural production for non-product-specific domestic support.

[21] Valdes and McCalla (1999) set the proxy to the food import capacity to (value of food imports)/(value of total exports). Variables such as net capital inflow, exchange rate depreciation and changing terms of trade of developing countries' exports may also be incorporated.

[22] A product-specific AMS for market support measures could be negative, when the publicly-set consumer price of the product concerned in any particular year was lower than the nominally-fixed reference price.

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